

Message Text

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ACTION EUR-12

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SUBJECT: THE TROUBLED DUTCH STEEL INDUSTRY FAVORS EC AND
SOLOMON PLANS

1. SUMMARY: AGAINST BACKDROP OF 70 PERCENT OPERATION OF
7.5 MILLION TON HOOGOVS STEEL PLANT WHICH HAS HAD LOSSES
AVERAGING MORE THAN \$80 MILLION ANNUALLY FOR PAST THREE YEARS
AND HAS BEGUN TO CUT ITS WORK FORCE BY 10 PERCENT, OFFICIALS OF
BOTH ECONOMICS MINISTRY AND HOOGOVS HAVE TOLD US THEY FAVOR
RECENTLY ANNOUNCED EC PROPOSAL TO REGULATE STEEL IMPORTS
AS USEFUL TOOL IN CARRYING OUT DAVIGNON GOAL OF RESTORING
COLLAPSED EC STEEL MARKET. HOOGOVS OFFICIALS ARE HOPEFUL
THAT THEIR OWN RATIONALIZATION AND PROPOSED EC STEPS WILL
SPEED UP PROCESS OF RESTORING COMPANY'S PROFITABILITY. WHILE
ECONOMIC MINISTRY OFFICIALS HAVE BEEN STUDYING SOLOMON REPORT
AND PRESIDENT CARTER'S STEEL STATEMENT, THEY HAVE THUS FAR
BEEN RELUCTANT TO COMMENT DIRECTLY ON US PLANS BUT
HAVE STATED "WE ARE ALL FACED WITH THE SAME PROBLEMS."

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HOOGOVS OFFICIALS, WHO RECEIVED A US CUSTOMS TEAM
DECEMBER 14 TO INVESTIGATE NATIONAL STEEL'S DUMPING
COMPLAINT, SAID RATHER POINTEDLY THAT THE US PLAN
WHEN IMPLEMENTED COULD LEAD TO SOUNDER COMPETITION AND
PRESUMABLY MIGHT ELIMINATE FUTURE DUMPING COMPLAINTS
BY US STEEL COMPANIES. END SUMMARY.

2. THE BLAST FURNACES AND STEEL WORKS OF HOOGOVS (THE GERMAN HOESCH CONCERN'S PARTNER IN THE BINATIONAL ESTEL CORPORATION) ARE AMONG EUROPE'S MOST EFFICIENT. YET THEY ARE SUFFERING SEVERELY FROM THE EUROPEAN AND WORLD STEEL SLUMP. EXPORTING CLOSE TO 80 PERCENT OF OUTPUT, HOOGOVS (SITED ON NORTH SEA AT IJMUIDEN) IS ESPECIALLY VULNERABLE TO DOWNTURNS IN WORLD STEEL TRADE. SINCE 1974 AVERAGE CAPACITY UTILIZATION HAS DROPPED FROM 95 PERCENT TO 70 PERCENT. THE RESULT HAS BEEN AN OPERATING LOSS ESTIMATED AT 200 MILLION GUILDERS ANNUALLY (ONE DOLLAR NOW EQUALS 2.30 GUILDERS) IN LAST THREE YEARS. THE LOSS ACCELERATED IN THIRD QUARTER OF 1977 TO NEARLY ONE MILLION GUILDERS PER DAY.

3. BECAUSE EARLIER EFFORTS (CUTTING HOURS, INSTITUTING A FREEZE ON HIRING AND UPGRADING A ROLLING MILL AND BLAST FURNACES) FAILED TO LEAD HOOGOVS OUT OF THE RED, ITS MANAGEMENT ANNOUNCED EVEN MORE DRASTIC MEASURES IN SEPTEMBER. THESE INCLUDED DOING AWAY WITH CLOSE TO 10 PERCENT OF PRESENT TOTAL OF 24,000 JOBS, 1,000 BY OUTRIGHT DISMISSAL AND REMAINDER BY ATTRITION. IN ADDITION, COMPANY SAID THAT IT WOULD CUT INVESTMENT SPENDING FROM AN AVERAGE OF 200 TO 300 MILLION GUILDERS A YEAR TO ONLY 75 MILLION IN EACH OF THE YEARS 1978 AND 1979. THE GOAL IS TO MAKE HOOGOVS OPERATIONS BREAK LIMITED OFFICIAL USE

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EVEN BY 1980 THROUGH A REDUCTION OF RAW STEEL PRODUCTION FROM 7.5 MILLION TONS A YEAR TO ONLY FIVE MILLION AND A 200 MILLION GUILDER ANNUAL CUT IN STRUCTURAL COSTS.

4. ALTHOUGH THE DETAILS OF ITS PLAN ARE STILL BEING WORKED OUT BY MANAGEMENT, THE FIRM HAS ANNOUNCED A 27 PERCENT REDUCTION IN WORKING HOURS FOR ABOUT 17,000 EMPLOYEES FOR A SIX-WEEK PERIOD STARTING DECEMBER 28. UNDER UNION PRESSURE, MANAGEMENT IS TRYING TO REDUCE NUMBER OF EMPLOYEES WHO WOULD HAVE TO BE DISMISSED OVER THE TWO YEAR PERIOD BEGINNING JANUARY 1, BUT SO FAR HAS ONLY BEEN ABLE TO SHAVE BY ONE-QUARTER ITS SEPTEMBER ESTIMATE OF 1,000.

5. THE STEEP INCREASE IN WAGE COSTS SINCE 1970 WAS ONE OF THE CHIEF CAUSES OF HOOGOVS' WORSENING COMPETITIVE POSITION COMPARED WITH GERMANY. DUTCH WAGE COSTS PER UNIT OF PRODUCTION HAVE RISEN BY 13 PERCENT ANNUALLY COMPARED TO 8.3 PERCENT IN GERMANY, INCLUDING RATE OF EXCHANGE FLUCTUATIONS. DUTCH ENERGY COSTS ALSO HAVE INCREASED RELATIVE TO GERMANY; WHEREAS IN 1970 GERMAN ELECTRICITY WAS 45 PERCENT MORE EXPENSIVE,

IT IS NOW 20 PERCENT CHEAPER THAN DUTCH ELECTRICITY.
THE SITUATION RELATIVE TO JAPAN IS EVEN WORSE; HOOGO VENS
WAGE COSTS PER TON OF STEEL ARE OVER 80 PERCENT HIGHER
THAN COMPARABLE JAPANESE FIGURES.
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Message Attributes

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